United States General Accounting Office

GAO

Testimony

For Release
On Delivery
1:00 p.m. EDT
February 27,
1991

LATIN AMERICA:

Views on the Enterprise for the Americas Initiative

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Before the
Subcommittee on International Economic Policy
and Trade
Subcommittee on Western Hemisphere Affairs
Committee on Foreign Affairs
House of Representatives

GAO/T-NSIAD-91-07

(472234)

Mr. Chairmen and Members of the Subcommittees:

We are here at your request today to discuss the information we have accumulated to date regarding the Enterprise for the Americas Initiative. Before beginning my formal statement, I believe it is important to note that our work to date has involved discussions with officials of U.S. government and non-government organizations, and with some representatives of potential beneficiary countries in the United States. We have not yet visited Latin American or Caribbean countries to discuss the Initiative with officials in those countries.

BACKGROUND

On June 27, 1990, President Bush announced a new three-pronged approach to stimulate sustained economic development in Latin America and the Caribbean. This approach--the Enterprise for the Americas Initiative--called for the United States to (1) expand two-way trade with Latin American and Caribbean countries, (2) reduce and restructure their official bilateral debt owed to the U.S. government, and (3) promote direct investment in the region. This Initiative complements Brady Plan efforts to restructure the commercial debt of highly indebted countries.

The trade initiatives are long term. The United States seeks to expand trade by successfully concluding the Uruguay Round of multilateral trade negotiations and negotiating free-trade agreements with the countries of the region. The other initiatives would have a more immediate impact. The U.S. government would reduce and restructure concessional Agency for International Development (AID) and PL-480 debt owed by Latin American and Caribbean nations. The interest on the remaining portion of this debt would be paid in local currency and placed in trust funds to be used for environmental conservation activities. The U.S. government would also make a portion of the nonconcessional Export-Import Bank (ExIm Bank) and Commodity Credit Corporation (CCC) debt available on the secondary market for debt-for-nature, debt-for-equity, and debt-for-development swaps. Finally, the United States would call on the Inter-American Development Bank to be a source of support for country efforts to permit greater foreign investment and privatize state-run businesses. The United States would provide $500 million to the Inter-American Development Bank over 5 years for this effort, with an additional $1 billion anticipated to come from Japan and Europe.

Legislation was enacted last Fall to authorize the write-down of PL-480 debt, to establish an Enterprise for the Americas facility at Treasury to manage these activities, to enter into environmental framework agreements with eligible countries, and to establish an Environment for the Americas Board to oversee the activities of the environmental funds. Legislation is pending to expand these activities to the AID concessional loans outstanding in Latin America and the Caribbean, to authorize the sale of a portion of

ExIm Bank and CCC debt on the secondary market, and to authorize funding for the Inter-American Development Bank. Future legislation may be needed to implement the trade portion of this Initiative.

SUPPORT FOR THE INITIATIVE

While our work to date raises some concerns that we believe should be addressed as you consider the Administration's proposal, I would like to emphasize at the outset that we support the concepts embodied in the Initiative--a cooperative promotion of economic growth in Latin America and the Caribbean, complete with plans for the expansion of trade and investment, reduction of debt, and promotion of environmental conservation. An underlying concern that we have, however, is that it may be difficult to deliver or live up to the expectations that have been set. If this proves to be true, United States relations with our Latin American and Caribbean neighbors could suffer rather than be enhanced by the Initiative. We believe, therefore, that it is necessary that these concerns be recognized early on and that strategies be developed to deal with them.

First, achieving the long-run trade goals depends on the successful conclusion of both the current multilateral Uruguay Round trade negotiations and a series of bilateral free-trade agreements with the Latin American countries. The successful completion of the

Uruguay Round negotiations is uncertain at this time. And, the successful negotiation of mutually advantageous bilateral free-trade agreements with the Latin American countries is a daunting and complex task. Second, the preconditions that countries must meet to participate in the investment and debt portions of the Initiative, while necessary, may preclude countries in greatest need from participating. Also, some analysts have questioned whether the benefits of the Initiative are sufficient to induce countries to undertake the economic reforms required to participate. Finally, it seems to us that, while AID has become more of a player in the Initiative than it was initially, it needs to have a more clearly defined role in implementing the Initiative in order to bring to bear its expertise in environmental and economic development matters.

UNCERTAINTY ABOUT THE ATTAINMENT OF TRADE GOALS

The Initiative's trade benefits have been characterized as its most important aspects; however, uncertainty about attainment of the Initiative's trade goals may jeopardize its success. Important trade benefits are contingent upon the successful conclusion of the Uruguay Round of multilateral trade negotiations--specifically agreement on reform of agricultural trade. The agriculture aspect of the Uruguay Round is of greatest importance to the nations of Latin America and the Caribbean, who stand to benefit from any reduction of U.S. subsidies to the American agricultural sector.

The Uruguay Round was supposed to conclude at a GATT Ministerial held this past December in Brussels. However, the talks stalemated over the European Community's unwillingness to negotiate significant reforms in agricultural trade. Even though negotiations appear to be resuming following the European Community's new willingness to discuss the key problems in agriculture--i.e., agricultural support, market access, and export subsidies--success is far from certain.

Many observers with whom we spoke were positive about the prospects for a free-trade agreement between the United States and Mexico. However, they believed that it would take at least a decade to implement a hemisphere-wide free-trade zone and require considerable political will. Because of our history with Latin America, sensitivities concerning sovereignty issues will probably be great.

Sectors and industries within both the United States and Latin American and Caribbean countries that are not competitive internationally will most likely lobby hard against the completion of free-trade agreements because they realize that such agreements would increase competition in their domestic markets. In the United States, competition from low-wage, labor-intensive industries of Latin America may be disruptive to some U.S. domestic firms. And, a free-trade zone with the United States would require costly and painful adjustments in Latin America. Latin American countries have a long history of statist protectionist economic policies. Most developing countries do not have the private sector infrastructures and foreign marketing expertise to successfully compete in some markets of industrialized countries. And, a hemisphere-wide free-trade zone could require freer movement of labor from Latin America and the Caribbean to the United States than the United States may actually favor.

The Initiative proposes that the U.S. government cut tariffs on products that Latin American and Caribbean countries can export to the United States. Since the average tariff rate for most Latin American and Caribbean goods under the Generalized System of Preferences is only about 7 percent, such tariff cuts would probably not have a great impact on trade in many sectors. However, there are a number of sectors for which there is still considerable protection from foreign competition. There would be a good deal of opposition in the United States to measures that further increased U.S. imports of such traditional Latin American products such as textiles and apparel.

IMPACT OF CONDITIONALITY ON INITIATIVE'S SUCCESS

Although the potential beneficiaries will find it difficult to meet the conditionality (that is, the various preconditions that are required to qualify for benefits), we believe that it is an important element of the Initiative. The conditionality of the original administration proposal was much more stringent, and we believe that the flexibility that Congress provided in the legislation last Fall and is contained in the current proposal is more appropriate. Requirements imposed by the conditionality element of the Initiative are usually in the nature of sound and responsible economic policies. Such policies are absolutely essential to the realization of sustained economic growth in the Latin American developing countries.

No developing country can achieve improved economic circumstances without an economic regime that will support balanced economic growth. Debt forgiveness and other assistance are not a substitute for the imposition of sound economic policies. They can only serve to lower the adjustment costs associated with the adoption of such necessary policies. Any debt forgiveness or other concessions that are granted without the recipient country putting in place the economic reforms will be wasted.

Although potential beneficiaries may find it difficult to implement the measures required, we believe the Initiative's conditionality provisions are very important. The conditions are that countries must: (1) adopt or make progress toward adopting a strong International Monetary Fund/World Bank economic reform program, (2) establish and implement major investment reforms and move toward more open investment regimes, and (3) reach agreements with commercial lenders on satisfactory financing programs for their commercial debt, if appropriate.

According to Treasury officials, about 5 Latin American and Caribbean countries have or are now close to meeting all these preconditions, and about 4 others are making good progress. However, countries with the greatest need for assistance in improving their environments, such as Brazil, Haiti and Peru, would probably have the greatest difficulty meeting the preconditions. Some other countries would not meet the conditionality for some time. Some officials told us that, for some countries, there may not be enough benefits in the Initiative to induce these countries to meet the preconditions, and that, if the countries participate, it would be because they had met the preconditions for other reasons.

Nongovernmental organizations with whom we spoke expressed a concern that countries attempting to meet the preconditions might have to curb their efforts to control or reverse environmental degradation. According to these organizations, Latin American and Caribbean countries have tended to underfund efforts to support the environment and, when attempting to meet the conditionality, might have to further reduce funding for conservation and jeopardize environmental protection. Moreover, they point out that new open investment regimes need environmental components because countries might further welcome projects that have excessively negative environmental effects, such as timber cutting, waste disposal, and intensive agricultural production.

IMPACT OF SMALL LEVELS OF ASSISTANCE ON INITIATIVE'S SUCCESS

In its totality, the Initiative does not provide a large infusion of assistance to the region and countries may not find the assistance sufficient to warrant implementation of the preconditions for benefiting from the Initiative.

Assistance Provided Through the Debt and Environment Aspect of the EAI

While official debt owed to the United States may be significant in some individual countries, the aggregate of what Latin American countries owe to the United States represents about 2.7 percent of their approximately $412 billion total external debt. Under the Initiative, the U.S. government would provide funding for environmental conservation by setting aside in trust funds the interest paid on restructured bilateral concessional debts. These concessional debts currently total about $7 billion.

Treasury officials have stated that the Initiative is to be budget neutral; that is, at least in the early years, the debt reduction would not reduce the anticipated income streams from these loans. To accomplish this, countries will have to pay a dollar amount equal to past payments in principal, and pay an additional amount in local currency for interest on the reduced debt. As a result, some countries could find themselves at first paying more under the Initiative than before. These funds do not appear to be large enough to have an impact on the level of indebtedness, but they may significantly affect how much money beneficiary countries can spend on environmental efforts.

The U.S. government plans to sell a portion of CCC and ExIm Bank loans involving these countries for debt-for-nature and debt-for-equity swaps to promote investment in the region. Outstanding CCC and ExIm Bank loans to Latin American and Caribbean countries total about $4.8 billion, and the U.S. government anticipates selling about 10- to 15-percent of this amount, or $480 million to $720 million. However, the entire stock of ExIm Bank and CCC debt of these countries is less than 10 percent of debt owed to commercial banks in all but 3 countries,[1] so selling 10- to 15-percent of an already small percentage of outstanding debt will not have a significant impact. Furthermore, the ExIm Bank and CCC debt placed on the secondary market are not likely to have much of an impact on the environment in participating countries. We were told by nongovernment organizations involved in debt-for-nature swaps that commercial debt currently being offered for sale on the secondary

[1]The Dominican Republic (25 percent), Haiti (13 percent), and Jamaica (18 percent).

market is not being purchased because the nongovernmental organizations do not have enough funding to purchase it.

Assistance Provided Through the Inter-American Development Bank

While the $1.5 billion to be provided over a 5-year period through the Inter-American Development Bank (IDB) does not seem to be a small amount, several individuals with whom we spoke pointed out that it is relatively small compared to total levels of assistance going to the region. However, they also pointed out that this amount represents a significant increase in funding to support privatization and investment reform and could be important to some countries. A concern was expressed about the ability of Caribbean countries who are not members of the IDB to access this fund.

AID'S ROLE IN THE INITIATIVE'S IMPLEMENTATION

AID has begun to play a greater role in implementing the Initiative, but its role is still not clearly defined. The Office of the U.S. Trade Representative is taking the lead in the trade aspects of the Initiative, with the Department of Commerce playing a supporting role. The U.S. Treasury Department and the Inter-American Development Bank play the major roles in the investment aspects of the Initiative. And, it appears that the Treasury and State Departments will take the lead in the debt and environmental aspects of the Initiative; here, the Environmental Protection

Agency will play a supporting role. While these agency roles seem appropriate, it is in the environmental aspect of the Initiative that AID could also play a significant role.

While AID has not had a perfect track record in implementing its environmental programs, our work over the years has shown that AID does have expertise in development and environmental issues. If the Initiative is to be fully successful, it would seem that the Agency should be directly involved in the debt and environment portion of the Initiative. The Agency's role could be to help ensure that the environmental projects financed under the Initiative were consistent with the Agency's extensive environmental projects in Latin America. This would prevent U.S. programs from overlapping or working at cross purposes. AID could also help ensure that the non-government organizations of the host countries have systems of accountability to monitor the disbursement of the environmental funds provided to them under the Initiative. Finally, the Agency could help ensure that the economic policy changes suggested for the host countries under the Initiative were consistent with those otherwise recommended by AID.

Treasury officials told us that they believed that AID's role in implementing the Initiative had been worked out last Fall after some intense negotiations. As I previously stated, our work to date indicates that AID will be playing a greater role than some officials expected when the Initiative was first proposed.

However, based on our discussions with numerous AID officials, we believe this matter is still in need of some further clarification.

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Mr. Chairman, that concludes my statement. We would be happy to respond to any questions you may have.